GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2065
ANSWERED ON:15.03.2002
AUDIT OF PLANTATION COMPANIES
ALE NARENDRA

Will the Minister of FINANCE be pleased to state:

(a) whether SEBI has conducted a special audit of various plantation companies;

(b) if so, the details of gross irregularities in fund mobilisation and deployment and extent of financial fraud/irregularities detected, Company-wise in general and companies in Uttranchal in particular;

(c) the action taken/proposed against defaulting companies to protect the interests of investors; and

(d) the present status of action taken against plantation firms, firm-wise alongwith the steps proposed to introduce mechanism to check and monitor fraudulent dealings of plantation and other non-banking financial companies in Uttranchal ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) & (b) The Securities and Exchange Board of India (SEBI) ordered a special audit of 53 collective investment schemes (CIS), which include plantation companies in 1998, in addition to the audit of 3 entities pursuant to court orders.

The major findings of the audit reports include: large scale diversion of funds to activities unrelated to the schemes` objectives; the lands/properties of the schemes are often not registered in the names of the entities/investors; a large portion of the funds raised has been spent towards the cost of mobilisation of funds; existing investors are paid out of the money received from the subsequent investors and not from the profits/income from legitimate business activities; funds have been mobilised without obtaining credit rating.

Out of the 56 entities audited by SEBI, the registered offices of 2 entities were in cities of Uttar Pradesh which are now part of Uttaranchal.

(c) & (d) The SEBI (Collective Investment Schemes) Regulations, 1999 were notified on October 15, 1999. No entity other than a Collective Investment Management Company which has obtained a certificate ofregistration under the SEBI regulations can carry on or sponsor or launch a Collective Investment Scheme.Also no existing Collective Investment Scheme is allowed to launch any new scheme or raise money from investors unless a certificate of registration is granted to it.

513 entities/their promoters/directors/managers/persons in charge of business of their schemes have been debarred from operating in the capital market for a period of 5 years. In a Civil Writ PetitionNo.3352/98 the Delhi High Court, on 22nd January, 2002 has ordered the freezing of bank accounts of 513 erring entities and their directors/promoters till they comply with the SEBI Regulations/directions regarding repayment to their investors. Names and details of those 513 entities were published in leading Indian newspapers namely, the Indian Express dated 22nd February, 2002 and the Business Standard dated 23rd February, 2002. This information is also available on the SEBI web site (www.sebi.gov.in)